



April 15, 2004

Jennifer J Johnson
 Board of Governors of the Federal Reserve System
 20th Street and Constitution Ave NW
 Washington DC 20551
 ATTN: Docket No R-1150

Re: EGRPRA Review of Consumer Protection Lending Related Rules

Dear Sir or Madam:

As a community banker, I greatly welcome the regulators' effort on the critical problem of regulatory burden. Community **bankers** work hard to **establish** the trust **and** confidence with our customers that are fundamental to customer service, but **consumer** protection rules frequently interfere with our ability to serve our customers. **The community banking industry is slowly being crushed under the cumulative weight of regulatory burden, something that must be addressed by Congress and the regulatory agencies before it is too late.** This is especially true for consumer protection lending rules, which though well intentioned, unnecessarily increase costs for consumers and prevent banks from serving customers. While each **individual** requirement may not be burdensome in itself, the cumulative impact of consumer lending rules, by driving up costs and slowing processing time for loans from legitimate lenders, **helps** create a fertile ground for predatory lenders. **It's time to acknowledge that consumer protection regulations are not only a burden to banks, but are also a problem for consumers.**

Truth in Lending (Federal Reserve Regulation Z)

Right of Rescission. **One of the most burdensome requirements is the three-day right of rescission under Regulation Z.** Rarely, if ever, does a consumer exercise the right. Consumers resent having to wait three additional days to receive **loan** proceeds after the loan is closed, and they often blame the bank for "withholding" their funds. Even though this is a statutory requirement, inflexibility in the regulation making it difficult to waive **the** right of rescission aggravates the problem. If not outright appealed, depository institutions should at least be given much greater latitude to **allow** customers to waive **the** right.

Finance Charges. Another problem under Regulation **Z** is the definition of **the** finance charge. Assessing what must be included in **or excluded** from **the** finance charge is not easily determined, especially fees and charges levied by third parties. **And** yet, the calculation of the finance charge is critical in properly calculating the annual percentage rate (**APR**). This process desperately needs simplification so **that all** consumers can understand the APR and bankers can easily calculate it.

Credit Card Loans. Resolution of billing-errors within the given and limited timeframes for credit card disputes is not **always** practical. The rules for resolving billing are heavily weighted in favor of the **consumer**, making banks increasingly subject to **fraud as** individuals learn how to game the system, even going so far as to do so to avoid legitimate bills at **the** expense of the bank. There should be increased penalties for frivolous **claims and** more responsibility expected of consumers.

Equal Credit Opportunity Act (Federal Reserve Regulation B)

Regulation B creates a number of compliance problems and burdens for banks. Knowing when an application has taken place, for instance, is often difficult because the line between an inquiry and an application is not clearly defined.

Spousal Signature. Another problem **is** the issue of spousal signatures. The requirements make it difficult and almost require all parties – and their spouses – come into the bank personally to complete documents. This makes little sense **as the** world moves toward new technologies that do not require physical presence to apply for a loan.

Adverse Action Notices. Another problem is the adverse action notice. It would be preferable **if** banks could work with customers and offer them alternative loan products **if they** do not qualify for the type of loan for which **they** originally applied. However, that may then trigger requirements to supply adverse action notices. For example, it may be difficult to decide whether an application is truly incomplete or whether it can be considered “withdrawn.” **A** straightforward rule on when **an** adverse action notice must **be** sent – that can easily be understood – should be developed.

Other Issues. Regulation B’s requirements also complicate other instances of customer relations. For example, to offer special accounts for seniors, **a bank** is limited by restrictions in the regulation. And, most important, reconciling the regulation’s requirements not to maintain information on the gender or race of a borrower and the need to maintain information to identify a customer under section **326** of the **USA PATRIOT Act** is difficult and needs better regulatory guidance.

Home Mortgage Disclosure (HMDA) (Federal Reserve Regulation C)

Exemptions. The **HMDA** requirements *are* the one area subject to the current comment period that does not provide specific protections for **individual** consumers. HMDA is primarily a data-collection and reporting requirement **and** therefore lends itself much more to a tiered regulatory requirement. **The current exemption for banks with less than \$33 million in assets is far too low and should be increased to at least \$250 million.**

Volume of Data. **The volume of data that must be collected and reported is clearly burdensome.** Ironically, at a time when regulators are reviewing burden, the burden associated with **HMDA** data collection **was** only recently addressed substantially. Consumer activists **are** constantly clamoring for additional data **and** the recent changes to the requirements acceded to their demands without clear cost-benefit analysis. **All** consumers ultimately pay for the data collection and reporting in higher costs and regulators should recognize that.

Certain data collection requirements are difficult to apply in practice and therefore add to regulatory burden **and** the potential error, e.g., **assessing** loans against HOEPA (the Home Owners **Equity** Protection Act) **and** reporting rate spreads; determining **the** date the interest rate on a loan was set; determining physical property address or census tract information in rural areas, etc.

Flood Insurance

The current flood insurance regulations create difficulties **with** customers, who often do not understand **why** flood insurance **is** required and that the federal government – not the bank – imposes the requirement. **The** government needs to do a better job of educating consumers to **the** reasons **and** requirements of flood **hazard** protection. Flood insurance requirements should be streamlined and simplified to be understandable.

Additional Comments

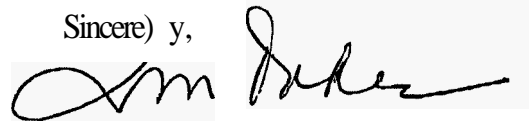
It **would** be much easier for banks, especially community banks that have limited resources, to comply with regulatory requirements were based on products and all rules that apply to a specific product were consolidated in one place. Second, regulators require banks to provide customers with understandable disclosures **and** yet do not hold themselves to the same standard in drafting regulations that can be easily understood by bankers. Finally, examiner training needs to be improved to ensure that regulatory requirements **are** properly – not uniformly – applied.

Conclusion

The volume of regulatory requirements facing the banking industry today presents **a** daunting **task** for any institution, but severely **saps** the resources of community banks. **We need help immediately with this burden before it is too late.** Community bankers are in close proximity to their customers, understand the special circumstances of the local community and provide a more responsive **level** of service than megabanks. However, community banks cannot continue to compete effectively and serve their customers **and** communities without some relief from **the** crushing burden of regulation.

Thank **you** for the opportunity to comment on **this** critical issue.

Sincerely,



D.M. Takes
President and CEO